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SUBJECT: PM WARNS OF FISCAL TIGHTENING

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11. SUMMARY: Danish PM Rasmussen announced that the government is revising budget plans in 2011-2013 to address growing public budget deficits. The plan, which will extend to 2020, will be released in February and form the basis of the Government's efforts for fiscal consolidation. Though details are sparse, the PM announced that part of the plan will likely be zero real growth in municipal budgets from 2011, which will likely lead to spending cuts. The Government will likely propose its 2011 budget in August. Many local observers worry that talk of reducing government spending may endanger Denmark's relatively weak economic growth. The Government is also suggesting that an increasing share of public government services (child and elder care, in particular) be outsourced to cut costs. END SUMMARY.
GROWING BUDGET DEFICITS PROMPT PM TO RECOMMEND BELT TIGHTENING

12. Danish PM Lars Loekke Rasmussen (Liberal Party) and Vice PM Lene Espersen (Conservative People's Party) warned Danes that the Government will soon need to tighten its belt to address growing budget deficits. The announcement came during a January 15 press conference at the end of the annual two-day government seminar to assess the political situation at the mid-point of the parliamentary year.

13. During his statement, the Prime Minister gave a summary of the state of the Danish economy and warned that there will be a bill to pay for the expansionary economic policy in 2010. He had briefly mentioned this during his New Year's speech, but the Government had not otherwise addressed the growing budget deficits or the need for fiscal tightening. According to Rasmussen, the Government is doing all in its power to curb the effects of the crisis and will continue to do so with a special emphasis on battling long-term and youth unemployment (Danish unemployment has more than doubled since the beginning of the international economic crisis). The sound economic policies of the Government in the good years (bringing down foreign debt and running a public budget surplus) allowed Denmark to respond to the crisis with expansionary fiscal policies, he claimed. However, this has resulted in a swing from a budget surplus to a deficit projected at 5.5% to 6% of GDP in 2010 and left the Government's existing 2011-2015 budget plan in need of serious revision.

14. These deficits also put the Danish economy outside the limits of the European Monetary Union (EMU) requirements as stipulated by the Stability and Growth Pact, precluding any option of holding a referendum on joining the EMU in the near future (this is one of the very few campaign pledges the Liberals made when they gained power that they have not yet fulfilled). The Government will release its EU Convergence Program in February outlining how it will get the public deficit back under the 3% EMU limit, but the PM warned that this will include serious budget cuts for 2011, 2012, and 2013 as compared to what was in the previous 2011-2015 plan. He cautioned that growth will continue to be fragile through 2010 and may require additional stimulus to take hold, which is why he proposes budget cuts from 2011 forward.

MUNICIPALITY BUDGETS TO BE FOCUS

15. The PM also quoted a statement from the Minister of Finance, saying that the municipalities are to have zero real budget growth starting in 2011 as part of the convergence program. This statement led to energized debate among local observers, with several Danish CEO's warning that a contraction in public spending could crush Denmark's fragile recovery. Furthermore many local observers predict that talk of local governments tightening the belt and tough economic times ahead would curtail private spending. Danish private consumption has contracted by 4.7% from Q3 2008 to Q3 2009; the Government's stimulus measures have been aimed at stimulating private spending. Finally, many commentators pointed out that the municipalities have never been able to sustain zero real budget growth. To require them to do so would imply that further cuts in core welfare benefits like education or health care would follow; commentators point out that such cuts are never popular with voters and, therefore, probably not politically viable.

PLANS STILL UNDER REVIEW

16. The debate had the PM defending his statements at his weekly press briefing on Tuesday January 19, specifying that the government is well aware that reining in the deficit has to be done cautiously so as not to harm a modest recovery. The PM noted that he did not accept the press projections of an austere economic policy in coming years, saying that he had merely pointed out that the government would begin to rein in budget deficits and reduce the debt in 2011.

17. On January 26, the PM stated in his weekly press briefing that the 2015 fiscal plan had been disrupted by economic developments and would be replaced by a modified version projecting forward to 2020. He said the Ministry of Finance is currently working on understanding the nature and scale of the challenges posed by the global economic crisis and will factor that into the convergence program.

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18. Following the convergence program announcement in February, the central government will enter into the annual negotiations with the municipalities in May and then propose the 2011 public budget in August (NOTE: the proposed budget is usually negotiated and then finalized in November). Though pressed on the point several times, the PM declined to be more specific on what cuts he foresees, saying only that they likely will be significant. He did state that the government does not see the time as right for reform of the labor market or the early retirement scheme (which allows employees to retire at sixty) as possible responses to the challenges of the economic crisis. Vice PM Espersen's Conservatives recently called for reform of the early retirement scheme.

TALK OF OUTSOURCING SOME SERVICES

19. The Government is also exploring outsourcing some public services as a possible path to cutting budgets. A government agency report released January 25 found that several billion Danish Kroner (DKK, approx. five to the US Dollar) could be saved if the municipalities were more adept at outsourcing eldercare, childcare and education to private companies. Vice PM Espersen suggested an annual increase over the next three years of 1% in the share of tasks outsourced by municipalities from the current 25%. The Danish People's Party, on whose support the ruling coalition depends, quickly criticized any such steps, claiming it would lead to degradation in government services Danes rely on.

FULTON